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INTELLIGENCE MEMORANDUM

Prime Minister Fukuda's Trip to the Middle East:
Ensuring a Stable Oil Supply

Key Points

- Prime Minister Fukuda's visit to Iran, Saudi Arabia, the United Arab Emirates and Qatar this month reflects Japan's continuing effort to maintain good relations with the Middle East, the region that supplies almost 80 percent of the petroleum needed to fuel the Japanese economy.
- As a nation that imports virtually all of its energy requirements, Japan regards itself as the most vulnerable industrialized oil consumer.
- Fukuda is therefore certain to maintain the basically pro-Arab perspective toward the Middle East that Tokyo adopted in 1973.
- He will also endorse current efforts to find a negotiated settlement to the Arab-Israeli impasse.

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- Fukuda and other government leaders are well aware that unilateral Japanese initiatives toward the oil suppliers can do little to ensure Japan's energy needs.
- Even so, Fukuda's posture in his discussions is likely to mirror the growing confidence Tokyo has displayed in managing these important economic relationships over the last several years.
- As such, Fukuda almost certainly sees his trip-- the first ever by an incumbent Japanese prime minister--as a means to underscore Japan's high level interest in its substantial stake in the Middle East.

Japan's Approach

Japan's diplomacy toward the Middle East has matured considerably in comparison to its initial scramble to secure oil supplies in the wake of the oil price hike and production cutbacks in late 1973. Indeed, following the immediate Japanese panic stemming from the oil embargo--including the dispatch of several high ranking delegations to the oil producing states to offer aid and technical assistance in the hopes of winning supply guarantees--Tokyo has pursued a more measured and calculating approach to serving its economic interest in the region.

The change in Tokyo's behavior has been conditioned by several factors. Most obviously, the need to pay Japan's oil bill and the natural attraction of the lucrative Middle East market have produced a rapid increase in Japanese trade with the region. As a consequence, Tokyo has been generally satisfied that its official efforts to encourage business expansion have produced a rapid and profitable return. Japanese trade with the Middle East quadrupled between 1973 and 1976; since then, Japan's share of the Middle East market has amounted to roughly 10 percent of the region's total imports. In turn, the Middle East now accounts for some 12 percent of Japan's worldwide exports, primarily heavy industrial goods and textiles.

Finally, the slow pace of Japan's economic recovery, including a drop in domestic energy consumption, has obviated the need to secure additional supplies--although Japan continues to rely on the major oil companies to provide about 57 percent of Tokyo's needs. In 1975, Japanese oil imports decreased by 5.4 percent. Although the pace has picked up since then, Japanese oil imports rose by only some 3.4 percent in 1977.

Although Japan's policy necessarily focuses on the oil producers, Tokyo has undertaken some modest initiatives to enhance relations with the moderate, non-oil producing Middle East states. Saudi suggestions in that regard to Foreign Minister Sonoda during his trip through the region earlier this year have led Tokyo to explore a joint venture with Saudi Arabia to assist Sudan. Likewise, the Japanese are also examining the establishment of a Japanese-Arabian cultural center to be built in Cairo. Encouragement from both the Arabs and the US has also prompted Tokyo to increase somewhat its assistance to Egypt over the past year and is now considering a further boost--from \$150 million to \$175 million for a commodity assistance program in 1979.

Japan's Needs and the Middle East: The Longer Term

Japanese efforts to find and develop energy supplies overseas, underway since the late 1950s, have surged dramatically since 1973. About 60 Japanese firms have approximately \$5 billion invested in the search for oil in more than 20 countries. As latecomers to the scene, however, the Japanese have generally been confined to less promising areas--Bangladesh and Honduras, for instance--where chances for success are slim and costs are high. As a case in point, about one-third of the crude oil produced by Japanese companies overseas comes from Japan's 45 percent share of a British concession in Abu Dhabi that the Japanese purchased for \$780 million in 1973.

Japan is also pushing energy exploration in relations with the USSR and China. The Japanese presently have some \$100 million committed to a joint project with the USSR to develop undersea petroleum resources off Sakhalin Island.

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Under its long-term trade agreement with China, meanwhile, Japan expects to boost its import of Chinese oil in exchange for Japanese industrial plants, technology and construction material. Even if the Chinese can provide the 15 million tons of crude by 1982 projected in the long-term deal, Chinese oil will account for only about 5 percent of Japan's total crude imports.

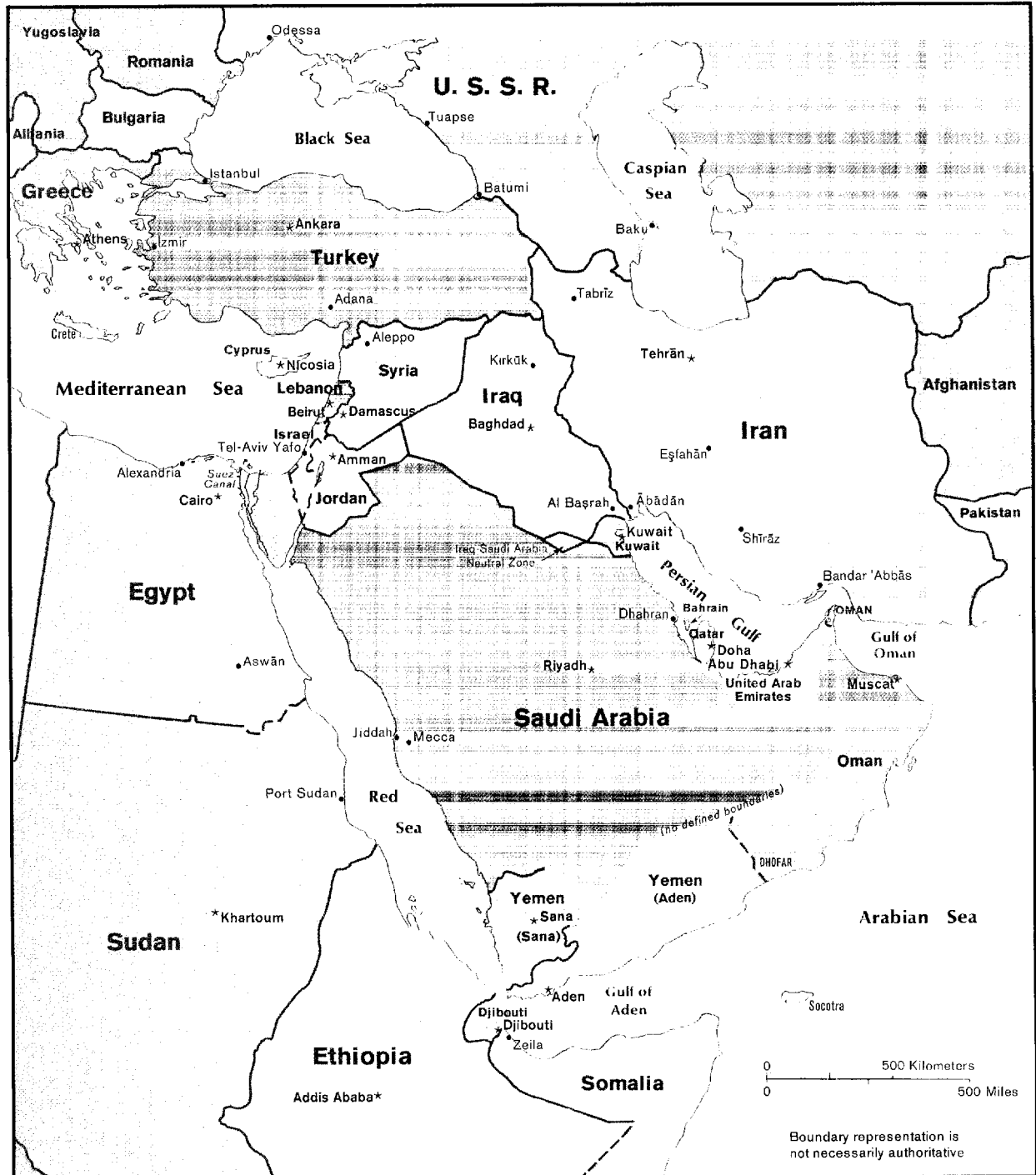
Tokyo is also actively examining ways to boost alternative energy sources. Efforts to secure a greater flow of liquified natural gas (LNG) imports have already involved the Japanese in several projects costing well over \$4 billion. Similarly, Japanese business and government planners alike have been pushing a program to diversify uranium supplies as part of their national nuclear power effort.

Notwithstanding such plans and programs, Japan will continue to rely on the Middle East for a major share of its energy supply well into the 1990s. Given that dependence and the general recognition among the Japanese that there are few options available to further underwrite the security of their stake in the region, Tokyo is unlikely to adopt any significant changes in managing its important economic ties with the Middle East. Like their behavior over the past few years, the Japanese will primarily focus on stimulating private sector involvement in bilateral dealings with the oil producers, while maintaining a low, but constructive posture toward the more basic questions of security in the region.

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